

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 NEA-10 ISO-00 IO-10 AID-05 CIAE-00

COME-00 EB-07 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02

OPIC-03 SP-02 CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05

SS-15 STR-04 CEA-01 L-03 H-02 PA-01 PRS-01 AGR-05

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INFO AMEMBASSY KATHMANDU PRIORITY

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E. O. 11652: ADS DECLAS 12/3/75

TAGS: EAID, EFIN, NP

SUBJECT: PROPOSED ADB SUPPLEMENTARY LOAN AND TECHNICAL ASSISTANCE
FOR JUTE DEVELOPMENT PROJECT (NEPAL)

USADB

FOR NAC AGENCIES

SUMMAR: ADB MANAGEENT PROPOSES \$530,000 EQUIVALENT
SUPPLEMENTARY LOAN FROM SPECIAL FUNDS RESOURCES WITH
TECHNICAL ASSISTANCE (TA) GRANT OF \$90,000 TO GOVT OF
NEPAL FOR JUTE DEVELOPMENT PROJECT. LOAN WOULD FINANCE
COST OVERRUN PLUS COST OF SOME ADDITIONAL EQUIPMENT
TO MODERNIZE RAGHUPATI JUTE MILLS; TA WOULD FINANCE
CONSULTANCY SERVICES FOR DEVELOPMENT OF JUTE RESEARCH
CENTER (JRC). NAC GUIDANCE REQUESTED.

1. ADB DOC. R85-75 WITH ATTACHMENTS DESCRIBING PROPOSED
LOAN AND TA GRANT POUCHED ADDRESSEES AUGUST 28. BOARD
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CONSIDERATION SCHEDULED SEPT. 16.

2. ADB MANAGEMENT PROPOSING \$530,000 SUPPLEMENTARY LOAN FROM SPECIAL FUNDS RESOURCES AND \$90,000 TA GRANT FOR JUTE DEVELOPMENT PROJECT IN NEPAL. PROCEEDS OF LOAN WILL FINANCE \$267,000 FOREX COST OVERRUN, \$130,000 FOREX COST OF SOME ADDITIONAL ITEMS OF EQUIPMENT PLUS \$133,000 FOR CONTINGENCIES AND ESTIMATED PRICE ESCALATION REQUIRED FOR EFFICIENT OPERATION OF RAGHUPATI JUTE MILLS. TA GRANT OF \$90,000 WILL FINANCE FOREX COST OF EXPATRIATE ADVISORY SERVICES TO ASSIST JUTE DEVELOPMENT AND TRADING CORPORATION (JDTC) TO CARRY OUT JUTE RESEARCH PROGRAM. PROPOSED TERMS OF LOAN ARE 40 YEAR AMORTIZATION INCLUDING 10 YEAR GRACE PERIOD, ONE PERCENT INTEREST. KINGDOM OF NEPAL TO BE BORROWER AND JDTC THE EXECUTING AGENCY. GOVT WILL RELEND PROCEEDS TO RAGHUPATI JUTE MILLS, LTD. AT 7.5 PERCENT INTEREST (SAME AS RATE UNDER PREVIOUS LOANS FOR JUTE PROJECT), 12 YEAR AMORTIZATION INCLUDING 3 YEAR GRACE PERIOD.

3. JUTE IS NEPAL'S MAJOR SOURCE (ABOUT TWO-THIRDS) OF CONVERTIBLE FOREIGN EXCHANGE EARNINGS. IT PROVIDES SIGNIFICANT CASH INCOME FOR MANY FARMERS OF EASTERN TERAJ REGION. JUTE PROCESSING INDUSTRY AT BIRATNAGAR IS NEPAL'S LARGEST INDUSTRY AND PROVIDES WORK FOR ABOUT 5,000 PEOPLE.

4. IN DECEMBER 1970 BANK APPROVED TWO LOANS TOTALING \$4.0 MILLION (\$2.0 MILLION EACH FROM ORDINARY CAPITAL AND SPECIAL FUNDS RESOURCES) TO ASSIST IN IMPROVEMENT OF AGRICULTURAL, PROCESSING AND MARKETING ASPECTS OF JUTE SECTOR. PROJECT WAS ORIGINALLY DUE TO BE COMPLETED BY OCTOBER 1973. DUE TO DELAY IN RECRUITMENT OF THREE CONSULTANTS IN FIELDS OF JUTE AGRONOMY, MARKETING AND MILL ENGINEERING AND DIFFICULTIES ENCOUNTERED IN TENDERING SOME MACHINERY AND EQUIPMENT, PROJECT WAS DELAYED BY ABOUT TWO YEARS. MOST OF CONTRACTS HAVE NOW BEEN AWARDED. INSTALLATION OF EQUIPMENT FOR BIRATNAGAR JUTE MILLS (BJM) IS EXPECTED TO BE COMPLETED BY END-1975. HOWEVER, DUE TO COST LIMITED OFFICIAL USE

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OVERRUN, REHABILITATION OF RAGHUPATI JUTE MILLS (RJM) IS NOT EXPECTED TO BE COMPLETED UNTIL MID-1977.

5. BJM WAS ABLE TO MEET ITS PROCUREMENT PROGRAM WITHIN ITS \$2.3 MILLION ALLOCATION UNDER THE ORIGINAL LOANS. ON ITS \$1.4 MILLION ALLOCATION, RJM INCURRED COST OVERRUN OF \$267,000 (EXCLUDING CONTINGENCIES) DUE TO PRICE INCREASES FOR MACHINERY AND EQUIPMENT.

OF THIS AMOUNT, \$41,000 IS REQUIRED FOR CONTRACTS ALREADY CONCLUDED AND \$226,000 FOR ITEMS ORIGINALLY AGREED UPON FOR QUALITY CONTROL, FIREFIGHTING AND WORK-SHOP FACILITIES, AND NECESSARY SPARE PARTS. IN ADDITION, HUMIDIFICATION EQUIPMENT COSTING \$130,000 (EXCLUDING CONTINGENCIES) IS CONSIDERED NECESSARY TO HELP REDUCE LOSSES IN FORM OF MACHINERY STANDSTILL TIME RESULTING FROM YARN BREAKAGES. ADDITIONAL \$133,000 COVERING PHYSICAL CONTINGENCIES AND ESTIMATED PRICE ESCALATION IS NEEDED FOR COMPLETION AND SUCCESSFUL IMPLEMENTATION OF PROJECT.

6. BANK DOCUMENT NOTES THAT GOVT CONSIDERED POSSIBILITY OF FINANCING FOREX COMPONENT FROM ITS OWN RESOURCES BUT DUE TO WORSENING EXTERNAL PAYMENTS POSITION IT FINDS IT DIFFICULT TO MAKE FUNDS AVAILABLE. GOVT ALSO INDICATED FINANCING OF SUPPLEMENTARY LOAN FROM BILATERAL SOURCES IS NOT PROMISING AND FURTHER DELAY WOULD ENDANGER SUCCESSFUL MILL OPERATION. HOWEVER, IN EVENT OF FURTHER COST ESCALATION, GOVT AND RTM WOULD MOBILIZE ANY ADDITIONAL FOREIGN OR LOCAL CURRENCY FUNDS FOR PROJECT COMPLETION.

7. ALTHOUGH AGRONOMIST WAS PROVIDED UNDER ORIGINAL PROJECT, BANK CONSIDERS FURTHER EXPATRIATE EXPERTISE FOR 15-MONTH PERIOD IS NECESSARY SINCE JRC (FOR WHICH LABORATORY EQUIPMENT WAS PROCURED UNDER ORIGINAL BANK LOANS) IS NOT YET ESTABLISHED. AGRONOMIST WOULD ASSIST IN PLANNING OF JRC AND FORMULATION OF RESEARCH PROGRAM AS WELL AS PROGRAM IMPLEMENTATION.

8. PROCUREMENT UNDER PROPOSED SUPPLEMENTARY LOAN WOULD BE CARRIED OUT BY JDTC IN ACCORDANCE WITH LIMITED OFFICIAL USE

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ANK'S PROCUREMENT GUIDELINES. CONTRACTS OF \$75,000 OR MORE WOULD BE AWARDED ON BASIS ON INTERNATIONAL COMPETITIVE BIDDING; SMALLER CONTRACTS ON BASIS OF REASONABLE NUMBER OF QUOTATIONS FROM MORE THAN ONE ELIGIBLE COUNTRY.

9. JDTC, THE EXECUTING AGENCY, WAS ESTABLISHED IN 1974 AS SUCCESSOR TO JUTE DEVELOPMENT BOARD TO (A) PROMOTE CULTIVATION AND PRODUCTION OF JUTE; (B) UNDERTAKE JUTE RESEARCH; (C) PURCHASE RAW JUTE FROM FARMERS; (D) ENGAGE IN DOMESTIC AND INTERNATIONAL TRADE OF JUTE AND JUTE GOODS; AND (E) DEVELOP JUTE INDUSTRY. IT IS NOW SOLE BUYER OF RAW JUTE FOR EXPORT; ENVISAGES TO EXTEND ACTIVITIES IN FUTURE TO EXPORT OF JUTE GOODS. ITS FINANCIAL POSITION HAS

BEEN SOUND. BANK MISSION RECEIVED ASSURANCES THAT ADEQUATE FUNDS WILL BE PROVIDED JDTC FOR ITS DEVELOPMENT AND OPERATION.

10. PRODUCTION AND EXPORT OF JUTE GOODS IS CONSIDERED VITAL TO NEPALESE ECONOMY. COST OVERRUN WILL NOT SIGNIFICANTLY AFFECT FINANCIAL AND ECONOMIC VIABILITY OF PROJECT. (RJM COMPONENT ESTIMATED TO YIELD FINANCIAL RATE OF RETURN AFTER TAXES OF 19 PERCENT AN ECONOMIC RATE OF RETURN OF 18 PERCENT). IN VIEW COST OVERRUN, USADB REQUESTS NAC GUIDANCE.

11. REQUEST KATHMANDU'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY 1972.
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